PFE - Q4 2009 Pfizer Earnings Conference Call

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PRESENTATION

Operator

Mr. Chuck Triano, Senior Vice President Investor Relations, you may begin your call.
Thank you, operator. And good morning everyone. Thank you for joining us today to review Pfizer’s fourth-quarter and full-year 2009 performance, 2010 financial guidance and 2012 longer-range targets.

I am here with Jeff Kindler, Frank D’Amelio, Ian Read, Martin Mackay, Mikael Dolsten, Amy Schulman, among others. The financial charts that will be presented on this call can be viewed on our home page at www.Pfizer.com in the Investor Presentations tab by clicking on the link, Quarterly Corporate Performance Fourth Quarter of 2009.

Before we start, I would like to remind you that our discussions during this conference call will include forward-looking statements, and actual results could differ materially from those projected in the forward-looking statements. The factors that could cause actual results to differ are discussed in Pfizer’s 2008 Annual Report on Form 10-K, and in our reports on Form 10-Q and Form 8-K.

Also, the discussions during this conference call will include certain financial measures that were not prepared in accordance with generally accepted accounting principles. Reconciliation of those non-GAAP financial measures to the most directly comparable GAAP financial measures can be found in Pfizer’s current report on Form 8-K dated February 3, 2010. These reports are also available at our website, Pfizer.com, in the Investors SEC Filing section.

With that, I will now turn the call over to Jeff Kindler.

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Jeff Kindler - Pfizer - Chairman, CEO

Thanks, Chuck, and good morning everyone and thanks for joining us. A bedrock principle of this team is that we meet our commitments to our stakeholders, starting with the owners of the Company. Since this management team has been fully in place we have met or exceeded every element of the adjusted financial guidance we have provided, despite an extremely dynamic operating and policy environment.

The 2009 results we report today continue our adherence that commitment. Our financial guidance for 2010 reflects our plan to continue to deliver results and meet our commitments. That guidance reflects a careful balance between two critical elements.

First, we continue to drive costs out of the business and improve our productivity in everything we do. We are also making our cost structure more flexible so that we can adjust our costs as needed.

Second, we are making focused, disciplined investments where we see the greatest opportunities for growth, whether in Emerging Markets, Established Products, in-line products, preparing the market for coming launches, or in the pipeline.

As a result, we see a portfolio with less risk, continued growth in adjusted earnings per share, and more consistent earnings growth over time. In that regard we are also providing today our targets for 2012, which given their long-term nature are necessarily subject to less certainty than our guidance for this year.

We have refined and revised the 2012 targets that we provided when we announced the Wyeth acquisition based on a thorough bottoms up review of all aspects of our business since we closed the transaction. In developing these targets we had the benefit of the deep and current understanding that our business leaders around the world have of their respective markets, customers and products. The leaders who will have accountability for the performance of their businesses.

Those targets show that Pfizer has come a long way in a short time. Only a couple of years ago we faced a significant clip in revenue and earnings in 2012 due to the coming loss of exclusivity for Lipitor. Today, thanks to the changes that we have made,
the Wyeth acquisition and the hard work of thousands of people, our targets for 2012 project adjusted earnings per share that are higher than both our 2009 actual results and our 2010 guidance.

Now before Frank provides more detail let me offer some additional perspective. For the past three years we have been transforming the Company’s strategy, leadership and culture.

First, strategy. We aim over time for modest topline growth, better bottom-line growth, and steady, consistent earnings growth. To achieve these goals we are diversifying our sources of revenue, as well as the risks of our investments. At the same time we continue to reduce our costs, continuously improve our productivity, and make our cost structure more flexible. Above all, we maintain a strong commitment to exercising discipline in how we spend our owner’s capital.

In 2009 we significantly advanced these strategies in many ways, most significantly, of course, through the Wyeth acquisition. We also fully implemented our unique business model of customer-facing units with responsibility from proof of concept through the entire product lifecycle.

Our business leaders are empowered to seize new sources of value, guided by disciplined and appropriate capital allocation requirements. One example this quarter that wouldn’t have happened here even a year or two ago, we quickly secured a deal for a promising compounds to treat Gaucher’s disease.

Next, leadership. Over the past three years we have substantially enhanced our leadership at all levels through internal promotions and through external hires from inside and outside the industry. In the fourth quarter we added several outstanding Wyeth executive to our leadership ranks, including Cavan Redmond, who leads our Diversified businesses; Mikael Dolsten, who leads our BioTherapeutics research team, and Geno Germano, who leads our Specialty Care business.

Two of our world-class Chief Scientific Officers, Emilio Emini in vaccines, and Manny Pangalos in neuroscience, also joined us from Wyeth, along with [Lou Smuckler], our head of biomanufacturing, and many others.

During the quarter, in addition to many important internal promotions, we also brought in a number of other key leaders from outside the Company. For example, from GSK, [Dr. Gautier Dias Ramos] in BioTherapeutics research. From Sanofi, [Dr. Patria Kabasoni], heading worldwide safety strategy. From AstraZeneca, where she ran the cardiovascular business and launched major brands including Crestor, Adele Gulfo, our new head of US Primary Care. From PepsiCo, where he led the Gatorade brand, [Todd Magazine], our new President of North America for Consumer Healthcare. From J&J, Mark Gelbert, our head of R&D for Consumer Healthcare. From the Fred Hutchinson Cancer Center, Dr. Norm Greenberg, now our Director of Oncology.

Strategy, leadership, and finally culture. I call it the spirit of small and the power of scale. Across Pfizer our teams are now small enough to focus on meeting the unique needs of specific customers, patients, physicians and payers. They each have empowered leaders with the authority, the resources, the knowledge and expertise to make decisions, the entrepreneurial mindset and agility to implement those decisions quickly, and most importantly the accountability for the results of their decisions. All of this is backed by Pfizer’s global scale and resources, a distinct competitive advantage.

This is allowing us to take actions to enhance shareholder value. Actions that are hard to imagine happening at Pfizer even a few years ago. For example, who would have thought that Pfizer would join forces with GSK to create Viiv Healthcare, a separate company that brings together the industry’s best assets in combating HIV AIDS.

Today we are working hard to unleash creative thinking and fast disciplined execution throughout the Company. The watchwords of our culture are speed, focus, accountability, execution, results.

In the last quarter we saw proof of that in the integration, which continues to move quickly. On the day after closing we announced all country leaders and all headquarters. Within six days every member of the US field force knew their status.
Within 30 days we announced an integrated plan for R&D site productions. Within 90 days we completed a scientifically complex prioritization across the two companies and announced Pfizer’s new combined R&D pipeline.

This is all the result of the close working relationships forming across the organization. This is especially true in R&D, where collaboration is advancing important programs. A great example is work on our beta amyloid vaccine for Alzheimer’s disease, which is currently in Phase 2 studies. This program represents a joint effort across legacy research units from the two companies and across modalities, by our vaccines team in BioTherapeutics, our neuroscience team in PharmaTherapeutics, and our partners at J&J’s Janssen unit.

These changes in strategy, leadership and culture are for one purpose, to deliver value to our stakeholders. That in turn requires execution and a relentless focus on results. As you look at the operating performance of legacy Pfizer in today’s release you can see these changes paying off. In Emerging Markets for the first time we saw double-digit revenue growth, led by China, India, Brazil and Russia. The Established Products business, consisting of products that historically simply decline, actually grew 1% on an operational basis for the first time.

Now while the results on this business will vary, our long-term strategy of stabilization and ultimately growth is on track. In the patent protected portfolio in-line products like Lipitor, Lyrica, Chantix, Geodon, Xalatan and Zyvox continued to perform well, both internationally and in the US.

Across all of these businesses we will continue to focus on reducing costs, making our cost structure more flexible and improving productivity. And we will also make focus, disciplined investments where there is opportunity for profitable growth. That is why our Emerging Markets business has increased the size of our field force in China. That is why Established Products has built a portfolio that now includes about 600 products. And that is why our Primary, Specialty and Oncology business units will continue to invest in the right products, in the right markets, consistent with their rigorous ROI models and their deep understandings of their customers and markets.

That is why we will make the right investments in market development at the right time to ensure that when we launch the exciting new products in our pipeline we will be successful.

All of this makes me very optimistic about our Company and our future. But, of course, what most excites all of us at Pfizer are all the scientific advances that give us so many opportunities to make a difference in the lives of millions of people. With the substantial assets and capabilities of the two legacy companies, and the extraordinary scientific talent that we have assembled from both inside and outside Pfizer, we can attack some of the most feared diseases of our time.

Our portfolio reflects our focus on those opportunities that we believe provide the greatest potential for investing our owner’s capital, and that represent our commitment to therapeutic diversity and diversity of approaches.

We now have 133 compounds in development, including 27 biologics and 6 vaccines, bringing our ratio of small molecules to biologics from 3 to 1, to 1.3 to 1. We are especially enthusiastic about our late phase portfolio. We now have 34 compounds in Phase 3 development across various indications. Among the most noteworthy of these are Dimebon for Alzheimer’s disease; [Tazositin], our JAK inhibitor for Rheumatoid Arthritis; Apixaban for cardiovascular indications; Tanezumab for pain; Axitinib for renal cell carcinoma; additional indications for Sutent; and studies of the Prevnar 13 vaccine in adults.

We know, of course, that it is very unlikely that every single trial we conduct will produce exactly the results that we all hope; that is the nature of our business. But we are more enthusiastic about our late stage pipeline than we have been in years.

In sum, we are on the right course. We have the right strategy, the right leadership and the right culture to continue changing Pfizer in the right ways that will create value for our shareholders. With that, I will turn it over to Frank.
Frank D’Amelio - Pfizer - CFO

Thanks, Jeff. Good morning everyone. As always, the charts I am reviewing today are included in our webcast. Because the Wyeth acquisition was completed on October 15, 2009, we are incorporating Wyeth’s results from that point forward, which includes approximately 2.5 months of Wyeth domestic results and 1.5 months of Wyeth international results, as Pfizer’s international calendar ends on November 30.

Now let me get to our financials. Fourth-quarter 2009 reported revenues were $16.5 billion, a year-over-year increase of 34% or $4.2 billion due to $3.3 billion or 27% from the addition of legacy Wyeth products, $419 million or 3% operational growth from legacy Pfizer products, and $469 million or about 4% from foreign exchange.

Fourth-quarter 2009 reported net income increased 188% to $767 million, and reported diluted EPS increased 150% to $0.10 year-over-year, due to higher revenues, the non-recurrence of the pretax and after-tax charge of $2.3 billion in the prior-year quarter related to the resolution of certain investigations concerning Bextra and various other products, which were largely offset by higher acquisition-related costs, which include transaction and integration costs, and restructuring charges associated with the Wyeth acquisition, and significant purchase accounting adjustments.

Additionally, the fourth-quarter of 2009 effective tax rate was favorably impacted by tax benefits related to the sale of Vicuron, and the jurisdictional mix of certain expenses associated with the acquisition of Wyeth.

Fourth-quarter 2009 adjusted income of $3.8 billion and adjusted diluted EPS of $0.49 decreased year-over-year by 13% and 25%, respectively. These results were favorably affected by higher revenues, but negatively impacted by increases in the following areas. Expenses, primarily due to the addition of Wyeth operations and investments in high-growth and in-line product opportunities, net interest expense, and the effective tax rate on adjusted income.

Also, fourth-quarter and full-year ’09 reported and adjusted diluted EPS were adversely affected by the increase in the number of shares outstanding versus 2008, primarily due to the issuance of shares to partially fund the Wyeth acquisition.

Fourth-quarter 2009 adjusted cost of sales was $2.9 billion or 17.5% as a percentage of revenues, versus 11.7% or $1.4 billion in the year-ago quarter. Driven by, first, the overall change in mix of products and businesses due to the Wyeth acquisition. Essentially, what you’re seeing is a blended gross margin now of both Pfizer and Wyeth. And second, the unfavorable impact of foreign exchange. Excluding foreign exchange, adjusted fourth-quarter cost of sales was 14.4% of revenues.

It is important to note that fourth-quarter adjusted cost of sales included the full manufacturing network of both companies. That said, we see opportunities to lower the combined Company’s adjusted cost of sales going forward.

Fourth-quarter 2009 adjusted S&A expenses increased 52% to $5.3 billion year-over-year, resulting from the addition of legacy Wyeth operations, increased investment in high-growth and in-line product opportunities, and the negative impact of foreign exchange.

Fourth-quarter adjusted R&D expenses increased year-over-year to $2.8 billion or 27% due to the addition of legacy Wyeth operations, continued investment in the late stage development portfolio, costs associated with Established Products business development transactions, and the negative impact of foreign exchange.

The fourth quarter ’09 effective tax rate on adjusted income increased to about 28% versus about 24% in the year-ago quarter, primarily due to the increased tax costs associated with certain business decisions executed to finance the Wyeth acquisition.

Because the adjusted diluted EPS calculation includes the additional shares issued to partially fund the Wyeth acquisition, there is a variance in the year-over-year percentage changes in adjusted diluted EPS compared with adjusted income.
Last quarter we updated our full-year ‘09 guidance to reflect the inclusion of Wyeth from and after the closing date, and we achieved full year ‘09 revenue and adjusted (technical difficulty) EPS guidance. While our ‘09 guidance range reported diluted EPS excluded estimates for acquisition-related costs, our actual results included these (technical difficulty). Consequently, ‘09 reported diluted EPS of $1.23 was lower than our previous guidance range of $1.45 to $1.50.

On an adjusted results basis, FX increased fourth-quarter revenues by approximately $469 million or 4% year-over-year. On the other hand, foreign-exchange negatively impacted total adjusted cost in the fourth quarter by $720 million or 10%, which resulted in a $0.02 net decrease in adjusted diluted EPS. Most notably, foreign-exchange had a $568 million or 39% negative impact on cost of sales.

Excluding the impact of foreign exchange, adjusted total cost increased operationally by 44% due to the inclusion of legacy Wyeth operations, and the continued investment in high-growth areas. Now let's move to the results of our commercial organizations.

As you can see from the chart, Biopharmaceutical revenues increased year-over-year, which included a $419 million or 4% favorable impact from foreign exchange. Operationally Biopharmaceutical revenues increased $2.9 billion or 26% year-over-year due to $2.5 billion or 22% from the addition of Wyeth products, and about $400 million or 4% from legacy Pfizer products.

Primary Care revenues increased 10% year-over-year, including a 4% favorable impact of foreign exchange. Operational growth of 6% was due to the addition of Premarin, a legacy Wyeth product, and operational improvements in Lyrica and Alliance revenues.

Specialty Care revenues increased 84% year-over-year, including a 5% favorable impact of foreign exchange. Operational growth of 79% was due to the addition of Wyeth Specialty Care portfolio, particularly Enbrel and Prevnar, and operational growth of Xalatan and Zyvox, among others.

Established Products revenues increased by 57% year-over-year, which included a 6% favorable impact of foreign exchange. Operational growth of 51% was due to the addition of legacy Wyeth products, primarily driven by Effexor, the launch of six products in the US, bringing the number of solid oral dose licensed products launched in the US to 26, the launch of five end-licensed products in the newly created US Sterile Injectables unit, higher antibiotic sales, and the stabilization of the rate decline of some LOE products.

As you will recall, we created the Established Products unit to recapture value for products that have lost or will soon lose patent protection for marketing exclusivity. We are pleased that in fourth-quarter ‘09 legacy Pfizer contributed plus 1% of operational growth year-over-year to Established Products growth -- positive growth for the first time.

We do expect that the financial results for this unit will continue to vary quarterly, depending on products that have lost exclusivity, and where they have lost exclusivity, the existence of generic alternatives and other factors.

Emerging Markets revenues increased 25% year-over-year, including a 1% favorable impact of foreign exchange. Operational growth of 24% was due to the addition of Enbrel and Prevnar, legacy Wyeth products, and double-digit growth in priority markets such as Brazil, Russia, India and China.

In fourth-quarter ‘09 legacy Pfizer contributed 10% of operational growth to Emerging Markets results. This is the first quarter that legacy Pfizer has contributed double-digit operational growth to Emerging Markets results since the launch of this unit.

Oncology revenues increased 11% year-over-year, including a 5% favorable impact of foreign exchange. Operational growth of 6% was due to the addition of Wyeth’s oncology portfolio, the continued solid performance of Sutent, despite increasing market challenges, which were partially offset by the continued negative impact of Camptosar’s LOE in most European markets in July of 2009.
Fourth-quarter '09 Diversified revenues increased 83% year-over-year, which included a favorable impact of $45 million or 5% from foreign exchange. Operational growth of 78% was due to an 11% of operational increase in Animal Health revenues, due to the addition of Wyeth’s Fort Dodge products, and an increase in legacy Pfizer's Animal Health revenues, and the addition of Wyeth Consumer Healthcare, which includes Centrum, Advil and Robitussin, among other products in Wyeth’s Nutrition products. And an increase in Capsugel revenues due to strength in all regions and across all major product groups.

In January of '09 Pfizer implemented a new cost reduction program expected to achieve gross reductions of approximately $3 billion at ’08 average exchange rates, compared with ’08 adjusted total costs.

As we previously said, we anticipate a $2 billion net decrease in adjusted total cost, as we expect to reinvest about $1 billion of those reductions in the business. At the same time, we also said we expect to generate $4 billion in synergies from the Wyeth acquisition. We now anticipate generating net synergies of about $2 billion to $3 billion after reinvestment.

We are now combining the projected cost reductions from these two initiatives, and expect to generate in the aggregate gross cost reductions of about $7 billion and net cost reductions of about $4 billion to $5 billion by the end of 2012 at 2008 average exchange rates versus Pfizer’s and Wyeth’s combined ’08 pro forma adjusted total cost.

We expect approximately $2 billion to $3 billion of these reductions to be reinvested in potential growth opportunities for 2012 and beyond, such as Emerging Markets, Established Products, in-line product support, and expected new product launches.

Our cost reduction initiatives continue to span essentially all divisions, functions, markets and sites across Pfizer. For example, broad categories of activity include manufacturing and research site exits, targeted workforce reductions and outsourcing.

We continue to expect about 50% of the projected reductions to come from SI&A and the remainder from R&D and manufacturing. In addition, we continue to expect the Wyeth acquisition to be slightly accretive to earnings in 2011.

Consistent with our statements during the last earnings call, during the fourth quarter we reinvested a portion of the year-to-date net cost reductions, about $750 million, in the following areas. Business development transactions in Established Products, resulting in license agreements this quarter with Protalix, Strides and Clarus. Incremental promotional efforts in the US, primarily around Primary Care products, including Lipitor, Lyrica and Chantix, whose fourth-quarter '09 growth rates improved sequentially. And promotional efforts in Emerging Markets, which contributed to the 10% overall legacy Pfizer Emerging Markets year-over-year growth, and strong double-digit growth in the fourth quarter in Brazil, Russia, India and China.

Net of these investments, we reduced Pfizer’s standalone costs by $200 million on a constant currency basis for full-year ’09 versus ’08. We believe we can achieve our cost reduction targets as we begin to realize the benefits of some of the synergy decisions we have made, including determining headquarters locations, rationalizing our R&D portfolio, and reducing our R&D real estate footprint by about 35%.

In addition, we will continue making decisions quickly, including refining the combined Company’s manufacturing network strategy within the next few months. We are confident in our ability to achieve the previously mentioned $4 billion to $5 billion projected cost reductions, while continuing to reinvest in the business.

Now we will move on to 2010 financial guidance, which is based on late January exchange rates, and does not assume the completion of any new business development transactions not completed as of December 31, of ’09. The guidance also excludes the potential impact of healthcare reform in the US.

In 2010 we currently expect for the combined Company reported revenues in the range of $67 billion to $69 billion, cost of sales as a percentage of revenues of 19% to 20%, adjusted SI&A in the range of $19 billion to $20 billion, adjusted R&D expenses and the range of $9.1 billion to $9.6 billion, adjusted other deductions in the range of $1.2 billion to $1.4 billion, effective tax
rate on adjusted income of about 30%, reported diluted EPS in the range of $0.95 to $1.10, and adjusted diluted EPS in the range of $2.10 to $2.20.

2010 revenue and EPS guidance was negatively impacted by the recent unfavorable changes in foreign exchange. For example, based on exchange rates in late January, the strengthening of the US dollar has decreased our adjusted diluted EPS guidance by about $0.06.

Finally, it is important to note that in 2010 Pfizer’s US Biopharmaceutical organization is evolving its US distribution model to a fee-for-service approach in the US. Plans for this change were in place prior to the Wyeth acquisition, and Wyeth already has a fee-for-service arrangement in the US. This change should not have a significant impact on 2010 results. It should, however, have a slight one-time impact on seasonal sales patterns in the first and second quarter of 2010.

We expect first-quarter sales of legacy Pfizer products to moderately decrease year-over-year, which we then expect will be offset by a moderate year-over-year increase in second-quarter sales.

We are updating and expanding our 2012 financial targets. We have added targets for reported diluted EPS, adjusted R&D expenses, adjusted other deductions, and the effective tax rate on adjusted income. We now expect 2012 reported revenues to be in the range of $66 billion to $68.5 billion, which reflects the divestiture of Animal Health assets required by the regulatory authorities, a revenue shift to the newly formed HIV company, ViiV Healthcare, resulting from our joint venture with GSK, and Wyeth’s return of its Relistor rights to the licensor. All combined, these items decreased the previous target by about $1.5 billion.

We also expect in 2012 adjusted R&D expenses to be in the range of $8 billion to $8.5 billion, adjusted other deductions to be in the range of $1 billion to $1.2 billion, adjusted operating margins to be in the previously expected range of high 30s to low 40s percent, the effective tax rate on adjusted income to be about 30%, reported diluted EPS to be in the range of $1.58 to $1.73, adjusted diluted EPS to be in the range of $2.25 to $2.35, which is based on approximately 8.1 billion shares currently outstanding. And then operating cash flow of $19 billion or more.

It is important to note that 2012 targets assume the current rate of inflation. Any meaningful change in this rate could cause these targets to change. Both our 2010 guidance and 2012 targets reflect our confidence in the business, and balance the achievement of our expected cost reductions with the anticipated increased investment to drive longer-term top and bottom-line performance.

In addition, in 2012 our targets assume a modest level of planned business development activities. I want to emphasize that these longer-term targets are subject to greater variability and uncertainty due to macroeconomic factors.

So to summarize the key takeaways, we achieved full-year ’09 revenue and adjusted diluted EPS guidance. We realized $200 million in Pfizer’s standalone net operational cost reductions, after significant investment in our growth opportunities. We provided 2010 financial guidance, which balances investments in high-growth opportunities with our ability to achieve anticipated cost reductions. And we updated our 2012 financial targets, adding additional line item targets. And as demonstrated by our performance this quarter, we continue to deliver operationally while advancing the integration of Wyeth. Now I will turn it back to Chuck.

Chuck Triano - Pfizer - SVP IR

Thanks, Frank. And at this time, operator, if you could please poll for questions. Thank you.
Catherine Arnold, Analyst

I wanted to ask you a couple of questions. First of all, on the 2010 guidance, we would obviously like to trust that the reinvestment that you are making in the products is prudent and beneficial in the long term strategic outlook for the Company. But I think we need a little bit more color so that we can have that confidence.

So if you could talk about why the SI&A expenses are presumably much higher than the Street expected. And obviously you are not inside of our models, but you have some priorities that perhaps you could elucidate for us.

Then if you could comment on the 2012 revenue difference and where that primarily came from. My last question is that with all the back-and-forth about the ratio of pharma acquisition, I wondered if you could remind us what you would see as the pros and cons of buying a generic business of that sort of (inaudible).

Jeff Kindler, Chairman, CEO

It is Jeff. Thank you for the questions. Let me make a general statement about your first question, which is investments in 2010. And then I'm going to ask Frank and Ian to elaborate.

We have had the benefit now since the closing of the Wyeth transaction to really dig deep into the opportunities that the two companies provide, and to really consider where there is opportunities to invest in growth. We have now with our business model a very, I think, very rigorous process. And as we've talked about in the past, we really apply very different hurdle rates to different businesses based on the various risks that they present, which vary. And it is a pretty disciplined process. We have looked at where there are opportunities in these different businesses based on their growth opportunities, based on what they see in their different markets.

We have also, as I mentioned in my comments, and Frank and Ian can elaborate on this, want to do that in a flexible way so that we can adjust our costs and investment as needed.

So what we are talking about for 2010 reflects a very thorough review of where those investments can be made in both the short and the long term to grow the business. So that is the approach we took. I will let Frank and Ian give you more specifics, but I just wanted to give you that overview of how we thought about it.

And I think, actually, that we are very excited about a lot of those opportunities. But I want to emphasize that it is a balance between continuing to reduce costs, both on an absolute basis, but also create a flexible cost structure so that we can flex it as needed and as business requirements demand. But also a real bottoms up business leader focused, market by market, customer set by customers set opportunities for growth that we approach in a pretty disciplined way. And that is how we come about these investment opportunities.

So let me ask Frank and Ian to take your questions, both about the 2010 issue and the 2012 revenues. And then I will ask Ian -- obviously we are not going to comment on any particular potential transactions, but Ian can elaborate generally about our thinking on established business opportunities. So, Frank.
Frank D'Amelio - Pfizer - CFO

Let me hit the 2012 revenue number first, then I will go to the 2010 reinvestment. On 2012 revenue let me bridge it this way. Back in January of last year we gave a target of approximately $70 billion, which was the sum of the two companies’ revenue numbers in 2008, to add to standalone Pfizer and standalone Wyeth.

So a couple of things have happened. One, the first bridge is from $70 billion to $68.5 billion, which is the top end of our new target range. Three things. The planned Animal Health divestitures. The second item is the HIV joint venture, Viiv Healthcare. And then the third item is basically the return of Relistor rights to the licensor. Those three items were not in the approximately $70 billion target that we had issued. So that takes you from roughly $70 billion to $68.5 billion.

Then in terms of the new range, the $66 billion to $68.5 billion, we have had a year now since we issued that target back in January. We have had a year with the new business unit model in place and getting the benefits of that model. We have integrated Wyeth. We have had four months or so now post integration with Wyatt. And when we factor in all the data, all the bottoms up work that we’ve done, we are now updating to target the $66 billion to $68.5 billion. And we have confidence in our ability to achieve that number. So that is the 2012 revenue item.

On 2010 and on investments, I will touch on this. Ian, I will let you make some comments, and we may even want some product comment on this, not just limiting it to SI&A, although Catherine talked about SI&A.

At a high level, at a general ledger level, and I will let Ian get into some of the detail, it is the opportunity growth areas that we have been talking about where we continue to see opportunity. So it is Emerging Markets, where we continue to invest -- and I will call additional marketing investment -- make additional marketing investment in the focus countries. Adding field force, promotional tools, sales tools. We saw some of the benefits of that this past quarter with double-digit growth in legacy Pfizer Emerging Markets, and very strong double-digit growth in our priority countries -- in many of our priority countries.

Continuing to invest in Established Markets. Once again, sales feet on the street on SI&A. And also continuing to just work through other growth opportunity areas that we see. Ian?

Ian Read - Pfizer - Group President, Pfizer BioPharmaceutical Businesses

Thanks, Frank. The first thing I would like to make a point is that in the business structure we are structured for a post-2012 world. So a lot of our incremental investment will be in flexible spending and directed behind products.

So certainly in Emerging Markets we are adding field force as fast as we can with quality field force in China and Brazil and some of the other markets. In Established Products we are adding [dossias] and adding opportunities, and really focusing on market by market, which requires targeted promotional spend.

In the US Prevnar 13 adult, where we need to ramp up for that. It will probably require a Primary Care field force to really fully explore its opportunity. Similarly in Europe and Western Europe, the same nature of investments, a lot of premarketing investment to prepare the market.

Then inside the US we are putting variable spend behind some of the major products that we need to grow through this period, such as Lyrica, where we have seen in the fourth quarter, with that increased DTC spend, good improvements in marketshare for DPN, PHN and fibromyalgia.

Chantix, which I would like to point out in the three years that Chantix has been on the market, prior to third quarter it only has had 18 weeks of DTC in those three years. So we are putting substantial effort behind that, both in December and in 2010.
We can look at other areas of spend. Lipitor, we are continuing to defend Lipitor where it makes sense to maximize the revenues of Lipitor through its LOE. And even smaller products such as Toviaz, where we now have new data with head-to-head superiority against Detrol in two clinical trials. So we see a lot of opportunity in that segment and we intend to invest behind this new product. So that gives you scope.

If we take it to 2012, clearly we need to do a lot of market preparation and development for our Alzheimer’s franchise, which Dimebon would be hopefully the first one into the marketplace. We have our JAK3 inhibitor. We have an oncology portfolio where we expect Axitinib to be entering, or the c-Met/ALK inhibitor. We have Apixaban, we have Tanezumab, we have Pristiq, both its depression indication and its vasomotor indication, and potentially [Aprela].

So we have a rich, powerful late stage portfolio, which we need to invest in to produce the growth from ’12 and onwards. Actually, I would like to ask Martin and Mikael if they want to add some color to those really exciting products.

Martin Mackay - Pfizer - President, PharmaTherapeutics Research & Development

Thanks, Ian. And thanks for the question, Catherine. I will keep this very brief, because Ian has touched on many of the high points. You remember in March 5, 2008 we made some commitments about our late stage pipeline in terms of those entities entering Phase 3, and the numbers we would have in Phase 3 by the end of 2009, and we have met all of those commitments. The fourth commitment you will remember was the submissions that we would make over 2010 to 2012, and we are very much on target to do that.

Now to take you up to the close of the deal and add in the really wonderful products from Wyeth in that late stage, where we now have 34 entities. And Ian has mentioned the Tanezumab, Axitinib, Dimebon, not to talk of Prevnar and [Tanezumab]. So I couldn’t be more excited about our pipeline. And of course it needs investment to bring it home. But Mikeal?

Mikael Dolsten - Pfizer - President, BioTherapeutics Research & Development

Yes, I am very pleased to hear the excitement from all of you about investment to really make these products reach all the patients that we want to, and be able to transform some of the diseases. For example, the Prevnar, both for infant and adult [form], I think is a vaccine that can really provide an expanded coverage. And in the adult area it will be the first powerful conjugate vaccine that could allow sustained protection from pneumococcal diseases.

Tanezumab I think offers the first new biological, and where we have pioneered the science, and to bring it into that pain setting on the Primary Care over time, as well as working with specialized pain physicians, I think can really advance pain relief in a new setting.

Of course, having spent a lot of effort in rheumatology with Enbrel, I am very excited to see a new [powerful] drug, that can also provide increased convenience.

Jeff Kindler - Pfizer - Chairman, CEO

Okay, thanks. Ian, just briefly on Catherine’s last question, and we will move on.

Ian Read - Pfizer - Group President, Pfizer BioPharmaceutical Businesses

I can’t really comment on any particular company or possible acquisition, but clearly Established Products, as it becomes a major player in this field needs to expand its portfolio globally in reality to maximize the infrastructure we have created, both for
targeted field force, commercial infrastructure (inaudible). So we will continue to look at business development opportunities to add to the strength of that portfolio.

Operator
David Reisinger, Morgan Stanley.

David Reisinger - Morgan Stanley - Analyst
I have a couple of questions. First of all, with respect to the longer-term other expense targets, specifically in 2012, they're only slightly different from 2010. So I am hoping that Frank can discuss your use of free cash flow and what your assumptions are. Because it seems like you are being particularly conservative, given the fact that the Company is going to be generating very high teens operating cash flow in coming years.

And then, second, with respect to the tax rate, could you just explain why in 2012 Pfizer is going to have a materially higher tax rate than all of its US-based peers? You are projecting 30%. Your US peers are in the low to mid 20s. It seems like that is too conservative.

Then my final question just relates to Prevnar. Prevnar was weaker than expected in the quarter. Was that due to a work down of Prevnar inventory in the channel ahead of the first quarter Prevnar 13 launch? Thank you.

Jeff Kindler - Pfizer - Chairman, CEO
I think Frank can hit all three of those.

Frank D'Amelio - Pfizer - CFO
On the other income, think about it this way, there is -- really when all is said and done there is three items that go through there for 2012, it is an adjusted -- it is really other deducts, because it is a charge, it is a debit. It is interest income, interest expense and royalty income.

So it goes down, give or take, by a couple of hundred million from 2010, so it is declining. We have some royalty income that declines over the period as well. And when you put all that together, you get the adjusted income number that -- the adjusted deduction number that we put out there for 2012.

Our priorities for capital and use of cash haven't changed. They are the priorities that we have talked about, that I've talked about before, whether it be the dividend, the amount of cash that we repatriate, debt repay downs, share buybacks, business development. Those haven't changed. They are all priorities. They continue to be priorities.

On the tax rate, our tax rate this year on an adjusted income basis was 29.5%. We had guided to approximately 30%. That is really being driven by the cash that we are repatriating from overseas as a result of the financing that we put in place for the Wyatt acquisition.

So I view that as very similar to what we have been doing. The industry average is lower. And we were lower than the industry. Last year we were 22%. And really it is what we are doing as a result of the Wyeth acquisition that has caused the rate to increase.

And on Prevnar, the short answer is, yes, to your question. It really was the result of, I will call it, lower Prevnar sales in anticipation of Prevnar 13 in the US.
Jami Rubin, Goldman Sachs

Jami Rubin - Goldman Sachs - Analyst

Just to follow-up on that question. If I take the high end of your 2012 guidance assumes $68.5 billion in revenues, and assume low 40% operating margin, etc., etc., I am getting more like 240 in earnings. And that still assumes no change to the share base. And I know you just said your priorities haven’t changed, but just in terms of the guidance you’re putting out there, am I wrong to assume that you’re being quite conservative in terms of uses of cash? That is my first question.

Second question is, just if I can be more clear on the gross margin. I know there was an impact this quarter from FX. Can you again clarify the impact to COGS in 2010 from foreign exchange. My third question is where is Prevnar 13? What are the outstanding issues and what is a reasonable timeline for FDA approval? Thanks.

Jeff Kindler - Pfizer - Chairman, CEO

Frank will obviously take the first two questions and Ian will take the third. Go ahead, Frank.

Frank D’Amelio - Pfizer - CFO

So on foreign exchange on COGS, obviously for 2010 we assumed current exchange rates, as we put in the release. The big impact on COGS was in 2009 in Q4, and I went through that in detail on the release.

It really has to do with where inventory is made, where it is held, where it is shipped, and the timeframe that takes place over, which for this quarter was very negative in 2009.

In terms of the EPS targets for 2012 of $2.25 to $2.35, what really drove the change in the targets, to your point, was the change in revenues, with a big piece of that being the change that was due to the three items I mentioned on my answer to Catherine’s question.

In terms of characterizing them as conservative, to use your word, my answer is they are targets. They are three years out. Our job is to do what we say we are going to do, meet those targets. And to the extent that we can do better than that, we will. But our job now is to meet those targets.

In terms of Prevnar 13.

Jeff Kindler - Pfizer - Chairman, CEO

You want to let Ian handle this?

Frank D’Amelio - Pfizer - CFO

Yes.
Ian Read - Pfizer - Group President, Pfizer BioPharmaceutical Businesses

With Prevnar 13 we are confident in our submission to the FDA and working with them towards approval.

Operator
Eric Lo, Banc of America.

Eric Lo - Banc of America - Analyst

I just want to push you guys a little bit in terms of your 2012 guidance. You guys are investing more in SG&A over the next few years. That should drive better growth relative to your previous guidance. So where have your expectations changed in terms of the different products or the different franchises in 2012?

Then in terms of a second question, what is your current view in terms of Emerging Markets opportunities? Do you believe you could continue to achieve sustainable double-digit operational growth in this area?

A third question is, do you consider the Nutritionals business to be a strategic asset for Pfizer? Is that a business you would consider growing through M&A, and what is the longer-term outlook for that business? Thanks.

Jeff Kindler - Pfizer - Chairman, CEO

Let me give you a couple of comments on your questions, and I will ask Frank and Ian to elaborate. First of all, as we have said, the 2012 targets, first of all, they reflect some things that have actually changed since the last time we provided them because of Animal Health dispositions, the [VF] deal, and the return of the Relistor rights. So that is just factual.

But also, as I said, we have had now the opportunity, especially since the closing of the deal, to really review on a very bottoms up basis all the opportunities that we have to invest and to create real value in various markets. It is a really close review of all the opportunities we have. I will let Frank and Ian elaborate on that further.

Why don’t I come back on the Nutritional point after you two elaborate on that question. And Ian, you can comment on the Emerging Market potential over time.

Frank D’Amelio - Pfizer - CFO

So in addition to what you said on the 2012 revenues, all I would say is compunctionally what you said, we went through a detailed process, bottoms up. We have the benefits of another year, the benefit of the BUs, the country managers, the Wyeth integration, and we refined the number. Basically there is no one big-ticket item. It is really just refining the number and providing an updated target, which is the $68.5 billion, which we have confidence in being able to achieve.

Jeff Kindler - Pfizer - Chairman, CEO

Ian, do you want to comment on --?
Ian Read - Pfizer - Group President, Pfizer BioPharmaceutical Businesses

Yes, so on the Emerging Markets, I think you've got to look at it in the way we come to market. We come to market both in the Emerging Markets and through our Established Products business unit offerings. So we are going both at what we call the patented and branded products and also the other offerings through Established Products.

Emerging Markets is projected in '10 to represent 27% of the worldwide growth (inaudible) market and represent 11% of the volume. So these markets are hugely important to us in the future, as they create a middle class that can pay out of pocket for medicines. I do believe we can maintain substantially higher growth rates in Emerging Markets than in the developed markets.

Jeff Kindler - Pfizer - Chairman, CEO

So regarding Nutritionals, and this is true really of all of our businesses, what I have said before is that we now have nine businesses, and actually really it is much more than that, because within all these businesses are multiple businesses. Within each geography it is really a different business. The products are different businesses. So it is really multiple businesses.

But the point is we have now a variety of businesses that give us opportunities to create value in many, many different markets, with different risk profiles for investments, with different ways of serving patients and customers. We see the potential for opportunities across these businesses.

And let's take Nutrition as an example. In China, for instance, the combination of the expertise and experience that the legacy organizations have with respect to mothers and children, whether it be through vaccines with Prevnar for children, Nutritions, whether it be the vitamin experience of the Consumer business, whether it be the legacy Pfizer business, there is lots of potential opportunities there for those businesses to create value together.

Now I say potential, because it is early days, and the proof will be in our ability to do that. It is our obligation as a management team on behalf of our shareholders to determine whether, in fact, that value can be realized over time, and whether any of our businesses and assets create value for shareholders best together and inside Pfizer, or whether there are other ways of doing that.

And that, for example, was what led to the conclusion that in the case of, for example, the HIV/AIDS assets that the best way to create value in that case was in the GSK deal.

But as we sit here today, we are very excited about the businesses that we have, and the potential and opportunities that they create for the Company. And we are going to seize those opportunities and value. But it is incumbent upon all of us over time to continue to ensure that they do that. And portfolio management is one of our responsibilities as leaders of the organization, and we will always be looking at that. Next question please.

Operator

Tim Anderson, Sanford Bernstein.

Tim Anderson - Sanford Bernstein - Analyst

I have questions on guidance. In the press release you talked about the gross cost savings from Wyeth being $4 billion, which has always been the number. But you're also talking about after reinvesting that translates into net savings of $2 billion to $3 billion. Maybe I have missed it in the past, but I don't recall hearing that gross versus net distinction. And I am wondering if in essence you are saying you're going to cut less cost out of Wyeth than what you originally said about a year ago?
Another question is on your revenue guidance for 2012 how are you accounting for pipeline products that could launch between now and then? So you've got certain products like Prevnar in adults, for example, and Dimebon, are those types of products in that revenue guidance?

Then the last piece is just on the R&D. So you put forth some pretty aggressive R&D cost cutting figures for 2010 and 2012. As I think kind of the core of the organization how are you confident that that isn't going to ultimately come around to bite you for potentially under investing in R&D?

Jeff Kindler - Pfizer - Chairman, CEO
Frank, why don’t you address all three questions. I might make a comment on the last one.

Frank D’Amelio - Pfizer - CFO
So just quickly, on the less cost cutting, my answer is no. We are on a track to take out the $7 billion that we talked about. What we are doing though is we are choosing to reinvest some of that money in some of the opportunity areas that we have alluded to on the telephone and in some of our prepared remarks. So I don’t view it at all as cutting less. We are going to get the $7 million (sic - see press release) that we talked about previously, but what we are choosing to do is to reinvest some of that money.

On the 2012 revenue targets and pipeline assumptions, I think the one large pipeline assumption would be pediatric Prevnar 13, and to a much smaller degree adult Prevnar.

In terms of the R&D programs, $9.1 billion to $9.6 billion in 2010, $8 billion to $8.5 billion in 2012 with the targets, those numbers have obviously been worked in detail with Martin, with Mikael. We have done bottoms up analytics on that. We announced our updated pipeline last week. It went from 600 programs to 500 programs. I believe we, the R&D team, the leadership team is very comfortable with the portfolio we have. We will be continuing to refine and optimize that going forward. And we think we are really focusing it on the invest to win areas, and we think we are maximizing the potential return on investment on that capital deployment.

Jeff Kindler - Pfizer - Chairman, CEO
I just wanted to just add one note on that comment. Because it is a really good and important question that you asked, but it is among the most important things that we as a Company, and we as an industry have to continue to focus on. We have to improve R&D productivity. We have to improve the return on our owner’s capital investment in R&D. But at the same time, we can’t do it in a way that doesn’t feed the innovations that we need to do our core business.

We believe that we are striking the right balance there. We feel very good about the plans that we put in place. And we are making very good progress in that regard, and I think we are really on the right track. So I feel very confident with that. Next question please.

Operator
Seamus Fernandez, Leerink Swann.
Seamus Fernandez - Leerink Swann - Analyst

Just a couple of questions for Ian. Can you give us a little bit more granularity on where the investment is being driven? I am a little perplexed by commentary on DTC with Chantix. So maybe you can just give us a little bit more clarity on are those investments really being driven to the Emerging Markets to potentially accelerate and sustain that double-digit growth, and it is being traded from some of the markets where we are seeing very disappointing, I think, across the industry, not necessarily Pfizer-related, but across the industry product launches in the US markets that we are tracking today?

Then secondly I just wanted to go back to Jami’s question on Prevnar 13, and what is happening in the US, and then also what is happening internationally in terms of the timing of the national immunization programs getting up and running with new products. Can you give us a little bit of an update on that, and when we would see pricing and incorporation into that finalized?

Then again just Prevnar 13 in the US, what is happening? And do you expect at least have some response from the FDA prior to the AC IP meeting scheduled for February? Thanks.

Ian Read - Pfizer - Group President, Pfizer BioPharmaceutical Businesses

So let’s just -- on your first question, we have in the last two to three years been very deliberately shifting resources out of the United States and Western Europe and putting those resources into the Emerging Markets, mostly in the form of reducing our field forces. We changed our business model so we can still be effective with our customers in the United States and Europe, but moving those resources out of those markets that you commented on and moving towards the emerging markets.

The increase in investments through ’10 and 12 I am talking about are principally in the Emerging Markets. The DTC is exclusively in the United States. And it is behind products that we believe there is an opportunity for growth, and we intend to invest behind them, such as I have said, Lyrica in its indications of fibromyalgia and TPN and PHN. We hope to expand those indications as we go through this period.

Chantix, where we believe we need to put sustained support behind it, both from a field force and from DTC, given we now have the label changes over. And targeted support behind Lipitor.

In regard to Prevnar 13, I really can’t make any more comments on the FDA. As I said, we are very confident of our submission and we are working towards approval in the United States.

Abroad, we are beginning to launch. But in reality probably the only small countries have launched so far. We won the tender in the UK for their program. There is some important tenders still pending, like Turkey and other major markets. We have won some tenders in small countries like Gambia and Rwanda. And in general the product is evolving as we predicted in our forecasts.

Operator

Chris Schott, JPMorgan.

Chris Schott - JPMorgan - Analyst

Maybe first, when we think about $7 billion of gross expense reduction and the $4 billion to $5 billion of net reductions that you’re planning by 2012, how much of that do you expect to be completed in 2010?

If I am hearing you right, are we anticipating -- are you anticipating in the near term maybe only modest net reductions to expenses, maybe what you saw ’09, as your investment activities are nearly fully offsetting the gross expense reductions?
Then the second question is related to R&D, that $8 billion to $8.5 billion by 2012. Are you assuming incremental R&D spend associated with future business development activity in that number? I guess in other words, when we think about the targeted R&D spend for the pro forma company, would it be even below that $8 billion to $8.5 billion range?

And maybe just a final question. What should we think about in terms of updates to the 2012 guidance and long-term synergy targets? Is this something that we will hear about quarterly or is this going to be something that is going to be more part of an annual review process that will get updated? Thanks.

Jeff Kindler - Pfizer - Chairman, CEO
Go ahead, Frank.

Frank D’Amelio - Pfizer - CFO
So let me do the second question first, then I will do the third, and I will come back to the first. In terms of the $8 billion to the $8.5 billion that does not assume incremental business development. So just to the extent that we were to do some business development, and there was -- I will call it significant R&D involved, that would not be in the $8 billion to the $8.5 billion, point one.

In terms of the 2012 targets, we will update those as needed is the way I would describe it. Clearly we will do that for sure next January. But in terms of the quarters as we go through the year, we will make sure we update those numbers as needed relative to making sure we are providing information and disclosure that needs to be provided.

On the 2010 gross net question, clearly as we are investing, the investment is biased early earlier in the cycle. The reason it is biased earlier is so that we could see the returns as we work our way through 2011, 2012 and beyond. So I think directionally you're right, you will see more of the investments earlier over the three-year stage.

Operator
Marc Goodman, UBS.

Marc Goodman - UBS - Analyst
Two questions. First of all, in trying to understand how the legacy Pfizer sales are going to be impacted early this year, can you help us understand where are inventory levels, and where do you anticipate them going? Just maybe help quantify that a little bit for the impact for first and second quarter.

Then you talk about modest business development in the revenues for 2012. So should we assume that there is $2 billion, $3 billion, $4 billion in there or much smaller? Thanks.

Frank D’Amelio - Pfizer - CFO
So in terms of the inventory levels, the weeks on hand this quarter, which is what I am assuming you are asking me, with distributors was 2.8 weeks on hand. In the year ago quarter it was 2.5, 2.6. And in terms of dollar amounts a slight increase. So no material change. And on going forward basis, I'm not expecting any material change in the rhythm of the business. So that is how I would answer that.
In terms of business development and the impact on revenues, modest. You can take away what you think modest is. It is clearly not anything that would have a large material effect on the numbers that we provided for 2012 targets. So modest, think about as not a material number.

Operator
Tony Butler, Barclays Capital.

Tony Butler - Barclays Capital - Analyst
Frank, back to David Reisinger's question on tax rate, if I may. At what point in time is it most important to you to actually have a permanent tax reduction in the tax rate vis-a-vis not needing to pull money from abroad, and therefore perhaps having paid down the existing debt versus some alternative use of that cash?

Then secondly, Ian, with respect to investment this year in what inning are you with respect to the China infrastructure -- ninth-inning, eighth-inning? And can you make the same comment with India? Thank you.

Frank D'Amelio - Pfizer - CFO
So on the tax rate what I would say is this. I gave a target for 2012. We said approximately 30%. Please understand that with that 30% approximation as the target, I believe we still have financial flexibility to do the things we need to do to deploy capital in a way that maximizes total long-term shareholder return. So I don't view that tax rate as some big handcuff that doesn't allow us to have the financial flexibility that we need to have. So that is how I would answer the question.

Ian Read - Pfizer - Group President, Pfizer BioPharmaceutical Businesses
So in India I would say we are really at the very beginning of our investments in India. And it is a market that is difficult to develop, but we are focused on it. Vis-a-vis China, regarding innings I would say we're in the middle of the innings. China is a huge opportunity. We've got a reasonably large field force. But we will continue to aggressively grow that field force to maximize opportunities and tailor it to the developments of the marketplace.

Jeff Kindler - Pfizer - Chairman, CEO
Okay, I think we have time for one more.

Operator
Steve Scala, Cowen.

Steve Scala - Cowen - Analyst
I have three questions. First, for Dr. Mackey, does Pfizer have the Dimebon Connection data now? Do you plan on filing the monotherapy data this year? And when will that data be presented? That is the first question.

Secondly, I would like to follow up on the 2012 revenue questions. In January 2009 when Pfizer gave the revenue guidance, it anticipated Animal Health divestitures to my recollection, is that not correct? And despite that anticipation, it was not in the guidance, is that how we should be viewing that situation?
Then thirdly, is the statement additionally our 2012 targets assume a modest level of planned business development activity -- is that the first time that language has been stated? Thank you.

Frank D’Amelio - Pfizer - CFO

Let me answer the third and second question, and then Martin will answer the first. In terms of business development being assumed in the 2012 targets, is that a new entry, the answer to that is no. That is not a new entry. I have said that before. We have said that before.

In terms of the Animal Health divestitures being adjusted to the 2012 targets, the short answer is, we included -- let me say it differently -- we knew Animal Health was going to be digested, and we had made some assumptions for that. When we gave the $70 billion target that was based on, among other things, the combined revenue of both companies for 2008, which included all of the Animal Health revenues.

So the $70 billion, although we knew we were going to be making Animal Health divestitures, we did not -- we did not adjust the $70 billion for Animal Health divestitures. So the answer to that is, it is not a new -- it is a new entry relative to what was included and assumed in the $70 billion.

Jeff Kindler - Pfizer - Chairman, CEO

Martin?

Martin Mackay - Pfizer - President, PharmaTherapeutics Research & Development

Just very quickly, we will -- the Connection results will be available in the first half of 2010, and we will publish in that timeframe.

Jeff Kindler - Pfizer - Chairman, CEO

Okay, there is one more question in the queue, so we might as well allow that person who has been waiting patiently. Operator?

Operator

David Maris, CLSA.

David Maris - CLSA - Analyst

Thank you. Patience, I guess is a virtue. But I wanted to follow up on a couple of questions on the Emerging Markets side. If you could talk a little bit about what products are gaining the most traction.

And on the investment side, particularly in China, you had in this past quarter a deal announced on the R&D side, the establishment of a facility there. What is the longer-term goal on the R&D side? Is there a therapeutic goal? Is there some sort of technology that you’re looking for? Thank you.

Ian Read - Pfizer - Group President, Pfizer BioPharmaceutical Businesses

So let me answer the commercial part first, and then Martin can answer the R&D side. In China, it is a -- in large part it is an out-of-pocket market, so brand loyalty and quality is really important. So we compete with a portfolio that we have accumulated...
over many years, and products that are still growing, products like Norvasc and Lipitor and Zithromax. So frankly it is our total portfolio is growing, and it is not as impacted as the United States or Europe is by LOEs.

So this requires what I would call a traditional investment thesis, feet on the street, field force, relationships with physicians, maintain your quality, be visible, invest in the market, invest with key opinion leaders, and that is what we intend to do. I will hand over to Martin on research.

**Martin Mackay** - Pfizer - President, PharmaTherapeutics Research & Development

Yes, just briefly, we established a R&D center in 2006. And initially it was to form collaborations with academics and some biotech companies. But more recently we have started our own portfolio, particularly in China, really dedicated to diseases that are prevalent in those areas. So you know yourself, from oncology to liver disease and the like. They have their own portfolio that they are progressing now. And I must say that the speed of progress is quite astounding in that timeframe.

**Jeff Kindler** - Pfizer - Chairman, CEO

Okay, thank you all very much. Thank you for joining us today. Have a good day.